

Appendix B
Water Well Agreement

This agreement is made and entered into this _____ day of _____, _____ by and between _____, hereinafter referred to as "Landowner" and _____, with offices at _____, hereinafter referred to as "Producer."

WHEREAS, Landowner(s) have existing water wells within their property boundaries, providing Landowner(s) water for domestic and agricultural/livestock water,

AND WHEREAS, Producer has acquired leases for the development of Coal Bed Methane Gas (CBM) and intends to drill and complete wells for the production of CBM,

AND WHEREAS, the development and production of CBM usually requires the production of water in conjunction with CBM and may require the localized reduction of water levels within certain individual strata of the Fort Union Coals,

AND WHEREAS, Producer has advised Landowner that the production of water in association with gas could adversely affect the productive capacity of Landowner's existing water wells which draw water from the Fort Union aquifer.

NOW THEREFORE, as consideration for the mutual covenants herein, in order to facilitate the multiple usage of the natural resources consistent with sound environmental practices, to mitigate potential adverse effects on the Landowner's water wells, to assure prompt and effective remediation, and to reduce the need for regulatory intervention by State and Federal agencies, the Landowner and Producer agree as follows:

DEFINITIONS:

Fort Union Coals: The Fort Union Coals, as used herein, shall mean those individual coal beds or several coal beds contained within the Tongue River member of the Fort Union Formation, bounded above by the Wasatch Formation of Eocene, and below by the Lebo Shale Member.

Circle of Influence (COI): The area that falls within the circle, the center of which is the location of a producing CBM well, which has a radius of one-half mile (2,640 feet) and contains approximately 502.66 acres.

Impaired Water Well: Any water well properly permitted with the Wyoming State Engineer's Office existing on the Landowner's property within the COI, existing at the time of the CBM development, that experiences a significant reduction of capacity to deliver water in quantity and/or quality sufficient to support the ordinary and customary use of the well.

Strat Test: Any test well that is drilled with the purpose of obtaining geologic information that is not completed for production and is subsequently plugged and abandoned. Strat Tests may produce water and/or gas for a period not to exceed thirty (30) days without creating a COI.

CSM Well: Any well drilled and completed for the production of coal bed methane that withdraws water and/or gas and water from the aquifer for a period exceeding sixty (60) days,

AGREED:

1. Upon establishment of a COI, the Producer, at its sole cost and risk will measure, or cause to be measured, the static water level and productive capacity (the baseline measurement) of properly permitted water wells within the COI and will attempt to determine the depth and configuration of these wells through consultation with the Landowner and from the records of the State Engineer of the State of Wyoming. The Producer shall also test for the presence of methane in the water wells. Tests shall be performed in accordance with test procedures attached hereto.
2. Landowner shall, upon reasonable notice, allow the testing of water wells within the COI, including a static water level test which may require the cessation of withdrawals of water from the well for a period not to exceed twenty four (24) hours.
3. Producer shall establish a continuing water well monitoring program, the intent of which is to enable the Producer to identify changes in the capacity of the Landowner's water wells within the COI. The Landowner shall allow continued periodic testing of the water wells within the COI for this purpose. Producer shall, upon request of the Landowner, provide all test data, both "baseline data" and monitoring data to the Landowner.
4. If a water well within the COI becomes an "Impaired Water Well" as defined herein, Landowner shall first take reasonable steps to verify that the impairment is not due to mechanical, electrical, down hole integrity, or pump problems and, if none of these problems appear to be the cause of the impairment, Landowner shall notify Producer of the impairment. Notice shall be made by phone and by writing, delivered by hand or by registered mail to the Producer at the noted address.
5. Within sixty (60) days of receipt of Notice of Impairment, Producer shall restore the Landowner's access to water of sufficient quantity and quality to offset such impairment by reconfiguring, redrilling the well, the drilling of a new well, or by other means. It is recognized that additional power costs may be associated with any reconfiguration of an impaired water well. The specific site of the well or water access may be changed by mutual agreement of Producer and Landowner.
6. Producer agrees that upon notice of impairment and during the curative period, to provide and make available water for domestic and livestock usage in quantity, quality, and location required for the maintenance of normal and customary domestic, grazing, and livestock operations. Producer shall develop emergency procedures for immediate delivery of water to any such effected Landowner within twenty-four (24) hours of notice. Producer shall notify all Landowners within any COI of the Producer's representative appointed to handle such matters, providing a local contact and a twenty-four (24) hour emergency contact. Landowner shall make a good faith effort to inform Producer by phone, fax, or

other expedient method of communicating of any impending loss or damage to livestock, allowing Producer a reasonable opportunity to mitigate such damage.

7. In the event it is determined that there is an Impaired Water Well, as defined above, in any COI, that COI shall be expanded based on the location of the impaired well or wells. The COI shall be divided into equal quadrants (NE, NW, SW, SE) and based upon which quadrant the impaired water well is located in, that quadrant shall be expanded by the area include within an arc one eighth of a mile wide (660 feet) outside the existing COI. Likewise, should it be determined that there is an impaired water well within the expanded quadrant of the COI, the quadrant shall be again expanded by another 660 feet increment. This expansion approach shall be used to expand any COI in any direction where impairment is determined during the life of the CBM well. Notwithstanding the above, if no water well exist within any COI or quadrant thereof, the arcs and associated quadrants not containing a water well shall be expanded to include the nearest water well.
8. At any time that the Lessee undertakes activities to enhance Landowner's water well capacity or to restore Landowner's impaired water well capacity, and should such activities require permits from regulatory agencies or permissions from third parties for surface-entry, Landowner shall aid and assist Producer in the obtaining of permits and permissions necessary to conduct the operations. All costs of the operations, including fees for obtaining permits and permissions, shall be borne by the Producer.
9. An Arbitration Board shall be formed for the purpose of arbitrating disputes between . Producer and Landowner under this Agreement. The Board shall consist of five (5) members, each member shall be appointed for a two (2)-year term with two (2) members being selected by vote of those Landowners within the various COIs and two (2) members being selected by vote of the Producers that are party of this Agreement and one (1) member being representative of the Wyoming State Engineer's Office.
10. In instances where a water well has become an Impaired Water Well as defined herein, and Landowner and Producer have not been able to agree on the cause of the damage, the Arbitration Board shall determine the cause of the impairment and decide which of the parties shall ultimately be responsible for bearing the cost of remediation. The Arbitration Board shall have the right to apportion and divide the cost among the parties in the event that both mechanical elements, the responsibility of the Landowner, and aquifer drawdown, the responsibility of the Producer, are both factors in causing the water well to become impaired.
11. In the event that the interpretation or enforcement of this Agreement results in legal action, the cost of such action, including reasonable attorney's fees, shall be borne by the individual parties, except in the event that the Landowner is the Prevailing party, in which case the Producer shall bear the costs.
12. The terms and provisions contained herein shall run with the land and shall be binding on the heirs, successors, and assigns of Landowner and Producer. This agreement shall terminate upon the expiration of the last Oil and Gas Lease or the plugging and

abandonment of the last CBM well to which this Agreement applies, whichever is the later date.

This Agreement may be executed in any number of counterparts, each of which shall be considered an original.

AGREED AND ACCEPTED THIS

_____ Day of _____, _____

PRODUCER:

BY: _____

(Name)

(Title, if applicable)

(Company Name)

(Mailing Address)

(Telephone Number)

AGREED AND ACCEPTED THIS

_____ Day of _____, _____

LANDOWNER:

BY: _____

(Name)

(Title, if applicable)

(Land/Company Name)

(Mailing Address)

(Telephone Number)